

# Export Financing Solutions

Identifying new sources of capital

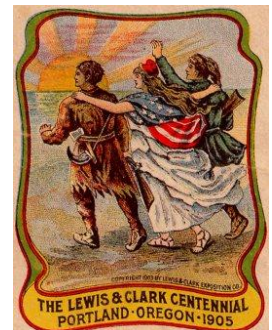


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# The exporter's challenge

**Export Sales  
Opportunities**

**Fulfilling Orders  
Collecting on Sales**

**The Exporter**

**The Exporter's Banker**



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# The solution? Loan guarantees for export loans

- **Lender-driven tool** – a commercial lender makes & services the loan/line of credit; lender decides if guarantee is needed and selects guaranteed program to use
- Two federal agencies provide export loan guarantees
  - **SBA**
  - **Ex-Im Bank**



# The SBA solution? Loan guarantees for export loans

- **SBA** has 3 specific export programs:
  - **International Trade Loan**
  - **Export Working Capital Program**
  - **Export Express**
- Up to \$5 million
- What makes these programs different from all other business loan guarantees offered by SBA?
  - 50-75% guarantee for domestic business loans
  - **90% guarantees → the Export Boost!**





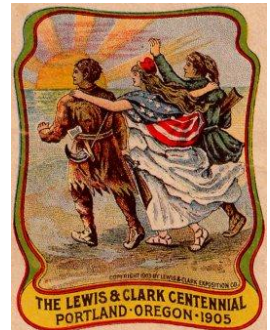
## Problem #1 –



## The case of the shrinking borrowing base



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# Problem #1 – The case of the shrinking borrowing base

- This firm is an **active, growing exporter**
  - Lots of export customers, distributors
  - Export A/R and export-dedicated inventory represent an increasing share of balance sheet assets
- Their long-time lender provides an asset-based line of credit
  - But the bank is not quite comfortable with foreign A/R in calculating their borrowing base
  - They heavily discount the value of export-related assets
- So as export sales ↑ ↑ ↑, working capital gets **tighter**



# How a typical lender evaluates export-related assets

Collateral		No Loan Guarantee		With Loan Guarantee	
Export Collateral	Value	Advance Rate	Borrowing Base	Advance Rate	Borrowing Base
Raw Material	\$200,000	20%	\$40,000		
Work in Progress	\$200,000	0%	\$0		
Finished Goods	\$600,000	50%	\$300,000		
Foreign A/R on Open Account	\$400,000	0%	\$0		
Foreign A/R by Letter of Credit	<u>\$600,000</u>	70%	<u>\$420,000</u>		
<b>MAX LOAN</b>	<b>\$2,000,000</b>		<b>\$760,000</b>		

# Solution #1 – The case of the shrinking borrowing base

- How to help the lender recognize the value of export assets?
- SBA's **Export Working Capital Program (EWCP)**
  - EWCP **Asset-Based Loan**
- 90% guarantee from SBA on a revolving line using export assets for the “borrowing base”
  - 80-90% draw on export A/R
  - 75% draw on export-dedicated inventory





# How EWCP can increase the borrowing base

Collateral		No Loan Guarantee		With Loan Guarantee	
Export Collateral	Value	Advance Rate	Borrowing Base	Advance Rate	Borrowing Base
Raw Material	\$200,000	20%	\$40,000	75%	\$150,000
Work in Progress	\$200,000	0%	\$0	75%	\$150,000
Finished Goods	\$600,000	50%	\$300,000	75%	\$450,000
Foreign A/R on Open Account	\$400,000	0%	\$0	80%	\$320,000
Foreign A/R by Letter of Credit	<u>\$600,000</u>	70%	<u>\$420,000</u>	90%	<u>\$540,000</u>
<b>MAX LOAN</b>	<b>\$2,000,000</b>		<b>\$760,000</b>		<b>\$1,610,000</b>

## Solution #1 – The case of the shrinking borrowing base

- **Export Working Capital Program (EWCP) Asset-Based Loan**
- Based on their balance sheet, the bank is able to increase the firm's working capital line from \$760,00 to \$1,610,000
  - Working capital line increased **> 2x**



## Problem #2 –



## The case of the missing borrowing base

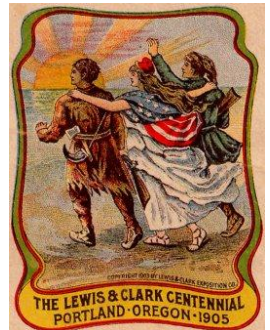


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## Problem #2 – The case of the missing borrowing base

- This firm is an exporter, but **cash-in-advance** is its mantra
  - Foreign customers are pushing for terms
  - Losing some foreign buyers to the competition
- But offering terms will create a **working capital squeeze**
  - To offer terms, the business will need a WC loan
- Their lender is receptive, but this historically cash-in-advance-driven firm has no export A/R to borrow against
- No export A/R → no borrowing base → no Asset-Based Loan....?



## Solution #2 – The case of the missing borrowing base

- How to lend to a business without an established export borrowing base?
- SBA's **Export Working Capital Program (EWCP)**
  - **EWCP Transaction-Based Loan**
- 90% guarantee from SBA on a revolving line that will complete a specific export purchase order (PO) or set of export PO's
  - advance 90% of PO value or the actual WC cost associated with the PO – whichever is less
  - loan is paid as the PO is paid





## Solution #2 – The case of the missing borrowing base

- **Export Working Capital Program (EWCP) Transaction-Based Loan**
- Allows an exporter to borrow the working capital needed to fulfill a prospective purchase order
  - **Pre-shipment financing**



# Transaction-based EWCP Loan: Pre-shipment financing

## **The export opportunity:**

- \$160,000 purchase order for wood flooring for the new National Performing Arts Center in Seoul, South Korea

## **The small business exporter:**

- Their second export order
- Order=27% of last year sales

## **Transaction:**

- \$15,000 advance payment
- \$145,000 letter of credit
- Expiry, four months

## **Working Capital Loan:**

- \$115,000 (72% of purchase order) to produce order
- 4-month loan



## Problem #3 –



## The case of the prepayment that wasn't



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## Problem #3 – The case of the prepayment that wasn't

- This firm is an exporter, but **cash-in-advance** is its mantra
  - The prepayment provides the working capital needed for fulfilling purchase orders
- A foreign buyer agrees to prepay, but their condition...
  - A **performance bond**
- The exporter asks their lender; they have a solution...
  - A **standby letter of credit**
  - The cost? A bank fee and cash collateral maintained on deposit = 100% of the face amount to the standby L/C
- The exporter's access to their prepayment WC is frozen!



## Solution #3 – The case of the prepayment that wasn't

- How to get a standby L/C without locking up the prepayment?
- SBA's **Export Working Capital Program (EWCP)**
  - **EWCP Standby Letter of Credit**
- 90% guarantee from SBA on a lender's standby L/C
  - Only 25% of face amount of L/C is needed as collateral
  - Collateral may be cash on deposit...
  - or even other acceptable assets (like inventory associated with the order)





## Solution #3 – The case of the prepayment that wasn't

- **Export Working Capital Program (EWCP) Standby Letter of Credit**
- Allows an exporter to get a performance standby L/C without tying up all of their prepayment
  - With only 25% collateral required, **up to 75% of the prepayment is available for working capital needs**



## Other cases solved #4 – The case of the competitive exporter

- Exporter needs RE, M&E, debt refinancing...
- ... anything to improve the competitive position of the exporter
- The financing can benefit both the firm's domestic and export operations
- **International Trade Loan**



## Other cases solved #5 – The case of the business that hated paperwork

- Exporter needs any or all of the solutions described above
- Loans up to \$500,000
- Less SBA documentation required
- Lender approves these loans in-house without SBA review
- **Export Express**



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SBA – making  
exporting  
elementary...

*The game's afoot!*

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"Maps were  
made and  
charts prepared"  
- A Study in Scarlet

